THE SITUATION OF THE UNITED STATES AT THE CLOSE OF THE EUROPEAN WAR—WITH SPECIAL REFERENCE TO THE GOLD SUPPLY

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The war and the derangement of industry and world trade incidental thereto have caused an international shift of gold of immense proportions, besides which they have brought into sight and into monetary use a large amount of gold heretofore hoarded and idle, and occasioned very large issues of paper money in the warring countries. The effect is to increase enormously the world's supply of money, and as these developments are still going on, and likely to continue for some time, the question of what effect this increase will have upon the level of prices and the general state of credit, industry, and business becomes an exceedingly interesting and important one.

Since the beginning of the war the United States has made a net gain of gold, according to Treasury estimates, of nearly $1,000,000,000, or over 50 per cent; the state banks of six neutral countries of Europe, viz., Norway, Sweden, Denmark, Holland, Switzerland, and Spain, have gained $390,000,000, or about 107 per cent. Argentine has gained about $100,000,000. In all, the neutral countries have added approximately $1,500,000,000 to their gold stocks. Japan, which, although a belligerent is commercially rather in the position of a neutral, has added $42,000,000 to the reserves of her national bank. While these gains were being made elsewhere, the belligerent countries of Europe have not, on the whole, lost gold. The Reichsbank of Germany has increased its holdings since the war began from about $323,000,000 to about $600,000,000. The larger part of this gain is understood to have come from gold coin, ornaments, plate, etc., turned into the bank by the people of Germany in exchange for the bank notes, but a portion of it may have come from the Bank of Austria-Hungary, which at the outbreak of the war held about $250,000,000 and has published no report since. The Bank of England holds on its own account about $75,000,000 more than at the beginning of the war and also holds about $142,000,000 as a redemption fund against the exchequer notes. The Bank of France held in its own vaults about $65,000,000 less than at the outbreak

of the war, but shows in its statement gold holdings or credits abroad amounting to about $275,000,000. The latter probably represents its contributions to the allied pool. The Bank of Russia also shows large gold credits abroad, and although for a time it showed more gold in vault than at the beginning of the war, it now shows about $25,000,000 less than at that time. The Bank of Italy has lost about $30,000,000. All together, not counting the French and Russian credits in other countries, the five belligerent countries named have about $375,000,000 more in their banking and currency reserves than when the war began. This takes no account of gold in the allied pool, if, as understood, these funds do not appear in the statements of the Bank of England. Before the war the National Bank of Belgium held approximately $60,000,000, which presumably has been added to the reserves of the Bank of England or the Bank of France. The total net increase in available gold, in all countries, according to these figures, is about $1,870,000,000. The world's production of gold from the mines has been about $1,000,000,000 in two years, and the consumption of new gold, although presumably much less than usual, must have been at least from $75,000,000 to $100,000,000 per year. If these figures are accepted, the amount of gold gathered into the great central banks from other banks and from circulation, from private hoards, and recovered from use in the arts, would aggregate approximately $1,000,000,000. Knowing what has been done in Germany and France, this is an entirely reasonable estimate.

It is not likely that the countries at war, excepting Japan, will be able to add to their gold stocks during the war. The new production, running at $500,000,000 per year, will go to the neutral countries, and the present holdings of Great Britain, France, Italy, and Russia, probably will be depleted by payments to the neutral countries. Norway, Sweden, and Denmark have now raised obstacles to the importation of gold, and the Bank of the Netherlands is discouraging further importations. It looks as though the United States would have to take the bulk of the world's production and of the stores released by Europe.

The increase in paper money outstanding in the countries under review has been as follows:

Great Britain	$710,000,000
France	2,223,000,000
Germany	1,334,910,000
Austria-Hungary	no report
Italy	358,290,000
Russia	2,976,495,000
Norway	29,715,000
Sweden	44,425,000
Denmark	31,000,000
Holland	162,865,000
Switzerland	39,095,000
Spain	78,860,000
Japan	42,450,000
	$8,031,105,000

Action of Scandinavian Countries

To an important extent the issues of paper money represent bank notes given in exchange for gold, so that gold and paper additions should not both be counted as effective upon prices. In Holland, for instance, the increase does not signify an expansion of credit, for the loans and discounts of the Bank of the Netherlands are less now than before the war. The outstanding notes of this bank amount to $295,000,000 and its gold reserve is about $244,000,000. Its notes are almost like our gold certificates. As gold has flowed into the country, it has been deposited in the bank in exchange for notes, the latter being the more convenient form of money, and it not being the custom on the Continent to keep bank accounts for checking purposes. The notes have been put out against gold rather than through loans. And the same is true of the other neutral countries of Europe. Their loans and discounts are generally lower than before war.

Norway, Sweden, and Denmark have passed legislation authorizing the central banks of those countries to decline giving their notes for gold, and the banks have adopted that policy. The reason for this action is that more gold is not needed to support the business of these countries, and its presence is deemed likely to produce speculation and inflation. It isn't in human nature to stand idle with money at command and see other people making unusual profits and not get into the game. This is the secret of the influence of increasing supplies of money upon prices.

Ordinarily, this policy of refusing gold would be considered crazy. It would interfere with foreign trade and stop the exports of the countries adopting the policy. But nothing can stop their

export under present conditions, and this action is taken to compel exporters to either import commodities which are now oppressively high in these countries, or make investments abroad. It sounds very strange to hear of a country's compelling its own citizens to invest their capital abroad instead of at home, but that is precisely the attitude of the Scandinavian countries at the present time. Holland has the same attitude, although it has passed no legislation, but has been taking its trade balance against England in British Treasury bills. The public men and bankers of these countries recognize that, under present conditions, additions to their money supply will be harmful rather than beneficial.

Banking Situation in the United States

The total stock of gold in the United States at the close of June, 1914, was officially estimated at $1,890,678,000, at the same date in 1915 at $1,993,549,000, at the same date in 1916 at $2,636,000,000, and on November 1, 1916, at $2,700,136,976. The figures for the amount of gold in all banks are not available for these dates, but, including gold certificates, the holdings of national banks and the twelve federal reserve banks and reserve agents at the close of June, 1915, aggregated $849,352,370, and on the same date in 1916 aggregated $912,657,000.

The loans and discounts of all national banks, and of all state banks and private banks and trust companies making public reports, on June 23, 1914, aggregated $15,288,357,283; on June 30, 1915, aggregated $15,722,440,177; and on June 30, 1916, aggregated $17,811,000,000.

The loans and discounts and investments in bonds and other securities of national banks were $8,331,000,000 on June 30, 1914; $8,824,000,000 on June 23, 1915; $9,936,000,000 on June 30, 1916; and $10,212,000,000 on September 12, 1916.

The summary of the condition of all national banks on September 12, 1916, prepared by the Comptroller of the Currency, shows the percentage of cash reserves held by each of the three classes of national banks to have been as given below:

	Actual Reserves per cent	Legal Reserves per cent
Central reserve city banks	20.39	18
Reserve city banks	24.80	15
Country banks	26.62	12

The central reserve city banks are loaned up much more closely

than the reserve city banks, and the latter are loaned up more closely than the country banks. The latter, however, presumably have their surplus largely with the first two, and the reserve city banks have their surplus largely with the central reserve city banks. The figures for vault holdings are not available at this writing. The federal reserve banks are using their lending powers but slightly.

The reserve city and country banks could largely increase their loans, but in doing so they would have to draw down their balances with correspondent banks or transfer them to the federal reserve banks and the central reserve city national banks would have to reduce their loans materially, although by a less amount than the increase in other banks. Including the federal reserve banks, there is room for large credit expansion upon present reserves, and of course further importations of gold will add to the reserves.

We are interested to know in the first instance what influence this abundant and increasing supply of standard money will have upon business affairs in the United States. Evidently the question is directly related to the so-called quantitative theory of money, which has been a very common subject of controversy among economists.

The Quantitative Theory of Money

The arguments over the quantitative theory are usually so complicated by qualifications and explanations and obscured by various influences affecting the situation that the issue is not very clearly made. Moreover, the distinction between standard money has not always been clearly made. The quantitative theory has been so often appealed to as an authority for inflating the currency by legislative action that many people have become habitually antagonistic to it. The point at which the issue is joined is over the question whether an increase in the volume of money constitutes in itself, or naturally creates, an increased demand for commodities. Those who say no argue that commodities themselves create the demand for each other. A good crop, they say, creates a demand from the farmers for manufactures, and the products of the farm are exchanged for the products of the factories by means of bank credit, the clearing houses, and to a relatively small extent by the use of money. These agencies, they say, are the incidents and conveniences of trade, as are railway cars, but the impulse to trade is back of them all and you can no more create a demand for goods by increasing the supply of money than by increasing the supply of railway cars.

But money is subject to the same influences which affect the value of any commodity. If the supply is increased, more will be offered in the exchanges and the value will be lower. Moreover, the above view overlooks the fact that gold is not only a medium of exchange but the standard of value and basis of credit the world over. Gold is a commodity which has extraordinary range of utility. It is not only money but capital, and the most liquid form of capital. It can be readily converted into any other kind of reproducible property. The man who has $100,000 of capital invested in a mill may not be able to convert it into cash, but the man who has $100,000 in gold can hire labor and buy machinery and have a mill in a short time, and that is precisely what he will do if the returns from milling property are long maintained above ordinary interest rates.

It is this universal convertibility which gives gold its commanding influence in the business world, and makes it different from a mere instrument like a railway car. The man who has gold at his command is a possible competitor in every business, anywhere in the world. Experience shows that under normal conditions men will not, for any length of time, sit with idle money in their hands while business about them is prosperous. They may attempt to buy into going concerns, which will bring about a rise of stocks, but after the value of these going properties has risen above the cost of duplicating them there is an inducement to hire labor, buy materials, and construct more plants. In this manner an increasing supply of standard money becomes effective upon prices. The new supply is indistinguishable from the old, it increases the bank reserves, it lowers the rate of interest until it finds employment, and in the process of employment it creates a demand for property and for labor and materials.

It is true that the use of bank credit and modern banking organization economizes the use of standard money, but this means an increase, not a decrease, in its efficiency and influence.

Under normal conditions, the influence of increasing supplies of money in one country is modified by the intimate relations existing between all countries in the modern world. An influx of gold, increasing bank reserves with the subsequent influence upon industry and prices, cannot go far without setting counteracting influences in motion. The country experiencing this phenomenon becomes a good market in which to sell both securities and commodities, the inflow of gold is automatically checked, and the movement possibly reversed. Familiarity with these tendencies has resulted

in the development of a rule of action by the central banking institutions of all countries, through which, by contracting or expanding credits they modify and to a considerable extent control the movements of gold. The theory of this rule is that by arbitrarily contracting credit they may exert the same influence that would result from an outflow of gold, and that by relaxing their grip upon credit they create the same effect that would follow upon importations of gold; and that it is better to have these influences controlled by a responsible and conservative authority than left to the free play of the markets, which are often subject to extreme action and reaction.

Under present conditions, however, all these restraints arising from international relations are in suspension. The fact that prices rise here does not curtail our exports, because the demands are imperative and can be supplied only here, and has but little effect upon our imports, because the foreign supply is limited. With a great trade balance in our favor, gold must continue to come in unless we make foreign loans or repurchase foreign holdings of our securities fast enough to settle our claims.

How Money Works Into Use

The developments of the past year, together with present conditions and tendencies, show quite plainly the natural influence of these gold importations. Our bank loans have increased by over $1,000,000,000, which is more than double the increase in any previous year of our history. The inducement and temptation to loan-expansion is very great and will increase with further importations. All of the importations go directly into banks. The competition of the banks for deposits has been but slightly, if at all, modified by the plethora of money, as shown by a statement of the City Chamberlain of New York in alloting the deposits of city money for the three months beginning November 1, 1916. He stated that the rates of interest to be paid ranged from 2 to 3 per cent and that the number of banks bidding high rates was greater than ever before. Banks cannot afford to pay interest upon deposits and have the money lie idle; a low rate is better than nothing, and low rates only are obtainable now. A borrower is a benefactor, helping the banks to carry unprofitable accounts. On the other hand, with a demand for all kinds of goods running ahead of supply, and with unusual profits in almost every line, the temptation to borrow for the purpose of buying into going concerns, or for enlarging profitable concerns, or

for starting new enterprises, is very great. But industry is already working to its maximum capacity. The concern which sets out to increase its capacity, or the individual who sets up a new enterprise, must begin by hiring labor away from some present employer by offering a higher wage, and by bidding over competitors for equipment and materials. The effect is to raise wages and prices, and this movement is going on all around the circle of the industries and is bound to go on, so long as bank reserves increase and the profits of industry are large enough to encourage expansion. This competition of a rapidly increasing supply of capital for a limited supply of labor does not increase production, except as that may result from the concentration of labor in the industries that can afford to pay the highest wages, and in transferring labor from the making of current supplies to the construction and improvement of productive works. A considerable share of the present congestion in the steel industry is due to the amount of labor employed in enlarging the steel works. This, however, for the time being, contributes to the rise of prices in the steel products.

Restraining Influences

Undoubtedly the people of this country have been kept under a large degree of restraint by their own sense of prudence. They have recognized that present conditions are abnormal and present profits temporary. Otherwise a stock having $100 of assets behind each share and earning at the rate of $40 or $50 per share per annum would be selling for more than $125 per share. If the farmers had any assurance that the prices of wheat in the last two years would rule for many years to come, farm lands would advance in value, the farmers would be more active bidders for labor, and the loans of country banks would go up rapidly. The situation is held in check by uncertainty and the full natural effect of such an increase in gold reserves is not obtained.

There are various restraints upon the immediate influence of these increasing reserves. A general readjustment of wages and prices works out gradually. Wages, prices, and charges of all kinds do not change uniformly; custom has much to do with them. Hence a rise of prices, particularly of necessaries, curtails the purchases of many people, interferes with general distribution, and thus puts a brake on the expansive tendency. If gold continues to come in faster than it can be absorbed it is dead in the reserves, without effect.

Reaching an Equilibrium

How will the situation work itself out and come into a position of stability again? If the United States was wholly cut off from the rest of the world, and had to look forward to living within itself in the future, wages and prices would adjust themselves, as we see them tending to do, to this stock of gold, and upon such a level that it would require all of this gold to support the exchanges and maintain normal bank reserves.

But we must not only reach an equilibrium between our gold reserves and our level of prices, we must get back to a normal equilibrium between the level of prices, wages, and interest in this country and the level abroad, as before the war. We cannot be cut off from the rest of the world, and when the war is over all the influences which formerly operated to maintain an equilibrium, by the daily movement to and fro of commodities, securities, and gold, will be in operation again. There will be a steady pressure, like that of gravity, until the balance is restored.

Prices After the War

After the war is over and the armies of Europe are returned to industry, and the millions more now engaged in making munitions are returned to the peace trades, the supply of commodities will rapidly increase, presumably prices will decline, and the extraordinary demands upon us fall away. In view of the number of workers looking for employment over there, and the influence of our gold supply upon prices here, it seems likely that costs will fall faster there than here, and judging from past experience we must expect a trade balance against us and a heavy outflow of gold. We shall be gorged with gold, and ours will apparently be about the most uninviting country in the world in which to employ it, by reason of the scarcity of labor and the high cost that will attach to all capital expenditures. On the other hand, Europe will be short of capital and have a large supply of labor, and will be in want of all kinds of goods, equipment, and construction work, to say nothing of her desire to recover her foreign trade. Although there may be an immediate rush to replenish bare shelves from America, or to refit factories with American machinery for the sake of expediting the resumption of industry, we cannot expect that Europe for very long will buy in this dear market the things that she can make for herself. Those countries which have a depreciated currency will have to pay a high exchange rate in

addition to our high prices. Furthermore, in view of our high price level we cannot expect this country to be as favorable a place at which to manufacture for world trade as the European countries. Capital and labor must get together at some spot where raw materials and coal or water power are available, in order to develop manufacturing. We shall have capital after the war but shall not have labor enough to employ it. The labor of Europe and the capital of America will have to be brought together. Will labor come here or will capital go there? One or the other must occur before the equilibrium is restored.

An Export of Capital

Conditions seem to favor the transfer of capital, in the form of gold, to Europe rather than the removal of population from Europe to America. This will certainly be true if costs are going to fall more rapidly in Europe than in America, and, besides, European governments may raise obstacles to emigration.

The natural readjustment would seem to be for gold which is idle here, or if not idle a disturbing factor, to go back to the bank reserves of Europe. It is simply impossible for all of this gold, and the new accretions that are expected, to be employed here. In the first place, we may hope that our people are too cautious to use it. They dare not, in the face of present world conditions, create the huge body of indebtedness which such an amount of gold would normally support. The multiplicity of readjustments in wages, prices, and income of every kind, cannot be made fast enough to enable our people within themselves to support such a development of industry as would be required to employ this amount. The level of prices which would be established by the actual absorption and employment of so much gold would put us far above the possibility of selling anything abroad save a surplus of natural products, and the margin of profit upon these would diminish, thus reducing the purchasing power of the producers. We should be the best market in the world to sell manufactures in, and under these conditions it would be impossible to carry the expansion farther. When goods can no longer be distributed the rise of prices must stop.

Further supplies of gold simply cannot be absorbed. If they stay in the country they must stay as capital which is dead here although needed elsewhere.

The natural development after the war, therefore, is for capital

to go out from this country in the form of gold. If we should fortunately bring down our costs fast enough to hold our normal share of the export trade, this gold nevertheless must go in exchange either for our own securities held abroad or for investments in foreign securities and properties. Our own securities have been coming home in such quantities that it is doubtful whether any important amount will remain abroad which can be dislodged.

The Foreign Appeal to Investors

It is said that our people are inexperienced in foreign investments and will be slow to make them, and this is an uncertain factor in the calculation. Nobody knows where our point of saturation will be. However necessity is a great educator. People, at least some people, learn rapidly where the best profits are to be had. Already approximately $2,000,000,000 of foreign loans, mainly government loans, running from one to five years, have been placed here, and more are coming. It is said that these will supply offsets against demands for gold after the war, and they will undoubtedly give a good degree of control over the gold movement, but they will probably be refunded or extended, and vastly more of them made. The obligations of the now belligerent governments are likely to look more inviting after the war than they are while the war is in progress, and presumably we can have all we will take in exchange for gold. Germany has borrowed practically nothing abroad as yet, and no doubt her bonds can be placed in the United States after the war in large amounts. The banks in all the countries that have been at war will be eager to clear out the government obligations which they have on hand, in order to clear the way for commercial loans. Then everything in the way of municipal loans and of corporation borrowing that can be shifted to the American market will come to us, just as in years past our municipal and corporation loans have gone to London. Colonial and other government loans and corporation borrowings in all parts of the world will come to us, and if our price level is above Europe's the expenditures under these loans probably will be made in Europe and thus require transfers of gold from here to Europe. There will be enterprises under American sponsorship and management in Russia and other countries of Europe, in China, and South America, with bond and stock offerings on this market. The depreciated currencies of Europe, while serving as a barrier to the importation of American goods, will create a

premium for the importation of American gold. The American investor can take gold there, convert it into a larger amount of currency, and use the latter with which to make his capital investment. The expenditures for equipment for these enterprises which under normal conditions would be made in the United States, will be made in Europe, for even American investors cannot afford to inflate the capital cost of their enterprises in foreign countries above the cost of rival enterprises.

Transfer of Gold Necessary and Inevitable

In short this will be a world market for securities until we are drained of our surplus gold, and interest rates here are back into balance with London, Paris, and Berlin. And there is nothing to object to in all this: it is desirable from every point of view that we release this idle purchasing power, and that the normal equilibrium be restored as soon as possible. It will be well for us to work intelligently to this end.

The Federal Reserve System

One of the first preparatory steps should be to make such amendments in the Federal Reserve Act as are necessary to enable the federal reserve banks to more readily attract this newly acquired gold into their vaults. In their anxiety to decentralize the banking business the authors of this act neglected to centralize the gold reserves, which is the most important requisite of a reserve system. The result is that while the country's stock of gold has increased from January 1 to November 1 by approximately $400,000,000, the Federal Reserve Bank of New York, upon which the demand for gold for export must inevitably fall, has gained less than $5,000,000, and all the federal reserve banks together have gained only $132,000,000. With $2,700,000,000 of gold in the country there is barely one tenth of that amount in the Federal Reserve Bank of New York, and the really free reserves in the other reserve banks are comparatively small, when considered in relation to the probable demands upon the system after the war. The federal reserve system has not acquired such control over the gold stock of the country as its responsibilities require it to have. It does not compare favorably in this respect with the great central banks of Europe, whose functions it was planned to perform.

The Gold Standard

It has been suggested that the warring countries, having by the end of the war disposed of nearly all their gold, instead of striving and toiling to recover it, may perpetrate a *coup* by demonetizing it, leaving the United States and other gold-holding countries with great stocks of the discarded and depreciated metal on their hands. Although this idea seems hardly worthy of attention it has obtained considerable currency. In the first place it may be said that notwithstanding the disposition of foreign interests, and the creation of foreign debts, Great Britain at the close of the war will surely be a creditor country by a very large balance, and the same will almost certainly be true of France and Germany. But there is another and broader reason why the gold standard will not be discarded. The suggestion proceeds upon the assumption that the world's standard of value has been established wholly by concerted and arbitrary action, and that the world might just as well have adopted silver, or gotten along with fiat money or by the use of an ideal or multiple standard. The truth is that gold came into the position of primacy which it holds among commodities today by a process of natural selection which eventually eliminated all rivals. No other commodity is comparable to it in qualifications to serve as a standard of value and basis of monetary systems. Silver has ranked next to it, and down to about 1870 held the larger part of the field, but silver even at that date was about sixteen times as heavy, value for value, as gold, and as the world has grown richer, the advantage of gold in convenience as the money of international settlements has been decisive. Theorists have always argued that the value of gold was artificial, the result of legislation, etc.; but the fact is that from the dawn of history, among all peoples, from savages to those of the highest civilization, gold has been prized next to the actual necessities of life. It was made money by legislation because it was money before states provided the medium of exchange. No matter what forms of money states may provide, all forms get their value from their relations to gold. We had the gold standard in the United States from 1862 to 1879, although our currency was irredeemable paper, and the market value in this country of every commodity of world trade fluctuated daily in correspondence with the fluctuations of our currency to gold. The wages of labor, however, did not follow so closely the fluctuations of the paper to gold, and the farmer who sold wheat at a country market had one more

fluctuation and extra risk between him and the world's market. Every element of uncertainty between producer and consumer is a barrier to trade, and the business world is always striving to eliminate them. The United States, after many experiments, brought all its varieties of money to the gold standard, for one reason, in order that its producers and wage-earners might receive their pay by the same measure of value by which their products were sold in the markets of the world. Another reason was that capital from other gold standard countries might flow readily in and out without the risk of loss in exchange. With the unit of value of every country fixed in gold, the money of every country has a definite relation to the money of every other country, contracts to buy in one country and sell in another are upon the same basis, risks are eliminated and intercourse is facilitated. It was a triumph of civilization to bring practically the whole world to the use of one standard of value, and the same influences that brought it there, step by step,—country by country, feeling its way—will keep it there. No single nation can afford to leave it, for by doing so it would introduce an element of uncertainty into all transactions between it and other countries. Will Great Britain with her world trade, or Germany with hers, set up independent standards of their own, fluctuating in value from day to day from the standard of their customers? It is one thing to suspend gold payments, temporarily, in a time of war, when as in the case of Germany, foreign trade is suspended, and, in case of England, other considerations are momentarily more important, but it would be a different thing to cut loose from gold. Germany suspends gold payments now to buttress her monetary system and to make more certain her ability to maintain the gold standard after the war.

It is a mistake to imagine that the countries which are below their normal supplies of gold will have necessarily a very formidable task in replenishing their stocks. If a country is low on wheat, dealers all over the world are alert to ship in a supply, and it is the same with gold. If London is a good place to use gold, outsiders will come, bringing their gold with them, to take advantage of the opportunities there. In no other way is it conceivable that capital can be so readily moved to London for use and distribution to suit the needs of the country as by shipments of gold.

A standard for deferred payments may be established by a table

of commodity values, but this means that the amount of money to be paid shall be less or more than a contract sum according to the table. But will the rest of the world do business by that table? And how will balances between countries be settled—by shipping a proportionate amount of all the commodities of the table? Who will keep the commodity reserves? Will the wage-earners have their wages measured weekly or daily, and will the farmer sell his produce, and the grocer fix his prices, by it?

Under the gold standard there has been in every country a currency fixed in its relation to this one value, because redeemable in it, and fixed in relation to all other currencies, because the gold coins could be shipped to another country and converted into the coins of that country. It is an effective world-organization, the practical, automatic advantages of which far outweigh its defects. It is safe to say that if the world modifies its use of the gold standard it will be done by agreement, so that the advantages of a common standard will not be lost. But the business world is conservative, and in no country more so than in Great Britain. Financial affairs in all countries are directed by very practical men, and the traditions and experience of the past, the known opinions and prejudices of the business community at home and abroad, are likely to have very much more weight in determining monetary policies than any scheme of theorists to legislate the value out of gold.

The Gold Exchange Standard

It is true, however, that the warring countries may get along with less gold than they have been holding in recent years and still maintain their currencies at par with gold. Immense gold reserves have been accumulated partly in preparation for war, and this suggests the further query whether the world at the end of this war will be so completely relieved from fear of future wars that it will not care for gold reserves.

No longer ago than the beginning of 1900 the Bank of France held only $361,000,000 of gold as compared with $825,000,000 in July, 1914, while the Imperial Bank of Germany held $111,000,000 in 1900 and $310,000,000 in 1914. It is less than twenty years ago that Russia, Austria-Hungary, and Italy got squarely on the gold standard. The prime essential for the maintenance of the gold standard is to always have gold enough on hand, together with foreign credits, to supply the gold wanted for export, or be able to sell drafts to meet the business demands. So long

as this is done the domestic currency is not likely to vary materially from the standard. The vast rupee currency of India, estimated at $800,000,000 to $1,000,000,000, is kept at the gold standard by a reserve fund in India of less than $25,000,000 in gold and a somewhat larger amount invested in securities, all accumulated from the seigniorage on the coinage of rupees and interest on securities that have been purchased from the fund. Doubtless such a small reserve would not suffice for a great financial market like London, but the Bank of England down to ten years ago was not accustomed to carry over $150,000,000 of gold.

Prices Probably Higher Permanently

As we have seen, the gold which has been sent to the United States and other neutral countries since the outbreak of the war has thus far all been taken from the circulation and private hoards or is new from the mines. The banking reserves of the warring countries have not as yet been reduced.

The transfer of this gold to the bank reserves of the United States and other countries, and the increased use of paper money in Europe, undoubtedly, has had and will continue to have, an influence for higher prices, or in other words, to cheapen gold everywhere. In that way it tends to diminish the depreciation of the paper currencies. Further transfers will naturally have the same effect, and the general monetary situation must be said to favor a permanently higher level of prices than prevailed before the war.